



AYERS
ACCOUNTING LLC

**NEW
NONPROFIT
ACCOUNTING
STANDARDS
SUMMARY**

by Andy Ayers

Changes

FORMER

Three Classifications of Asset Restrictions

No Liquidity Disclosure

Operating Cash Flow Reconciliation

Expenses Not Required to be Classified Functionally and Naturally

CURRENT

Two Classifications of Asset Restrictions

Liquidity Disclosure Required

No Operating Cash Flow Reconciliation Needed

Functional and Natural Expense Classification Required

Asset Classification

FORMER

Unrestricted
Temporarily Restricted
Permanently Restricted

CURRENT

With Donor Restrictions
Without Donor Restrictions



Even with the former classifications, they could still be misleading and confusing. Example: In the Unrestricted type, assets were still sometimes restricted for legal or board elected restrictions.

To significantly diminish ambiguity and improve understanding, asset classifications were reduced from three to two.

Liquidity Disclosure

FORMER

None

Current

Requirement to Disclose



There is now the requirement to disclose how well a nonprofit can pay upcoming bills. The requirement is that the organization should show both quantitatively (with dollar amounts) and qualitatively (with words) what it has in its resource and asset pools to cover the next year's general expenses.

Operating Cash Flow Reconciliation

FORMER

**Indirect Method Reconciliation
Required When Using Direct Method**

CURRENT

Reconciliation No Longer Needed



Previously, a nonprofit organization could use either the indirect or direct method to construct an operating cash flow statement. When using the direct method, it was required to show the reconciliation between both methods. However, it is no longer necessary to do so. A nonprofit may elect to use either method without the cash flow reconciliation.

Note: As a point of reference, the direct method (in very basic terms) shows the Operating Cash Flow statement by means of cash accounting. The indirect method shows the Operating Cash Flow statement using the accrual accounting method.

Expense Disclosure

FORMER

**Expenses Not Required to be
Classified Functionally and Naturally**

CURRENT

**Functional and Natural Expense
Classification Required**



This change is for financial statement presentation only. The requirement to disclose expenses as both functional and natural state was already a requirement for an organization's 990. Functional state refers to the organizational category for which the expense was used for (ie. administrative/support, program, fundraising, etc.). Natural state refers to the actual expense category that the expense should flow to (ie. salaries, rent, utilities, etc.).

While these items are some of the more outstanding changes that will affect nonprofit organizations, additional updates have been made that may impact your organization.



About the Author

Andy Ayers is the Founder of **Ayers Accounting LLC**, a nonprofit accounting and advisory firm.

For additional information, please visit **www.ayersaccounting.com**.

To schedule an appointment with Andy, please email: **aayers@ayersaccounting.com**.

I welcome the opportunity to discuss these topics as well as other accounting needs that your organization may have.

****Note:** This is intended as a guide for nonprofits only. Further, it should only be used to get a baseline of information on the new changes that are affecting nonprofits with fiscal years beginning after December 15, 2017. Please contact Ayers Accounting (or your accounting professional) directly to discuss your organization's specific set of circumstances and how the new guidelines will affect you operationally and financially.